85-2105

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:	EXTENSION	NO.
[redacted] Liaison Division Office of Legislative Liaison	[redacted]	OLL 85-1876
		DATE 1 July 1985

STAT
STAT

TO: (Officer designation, room number, and building)	DATE RECEIVED	DATE FORWARDED	OFFICER'S INITIALS	COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)
1. DDA 7D18	2 JUL 1985			
2. D/OP G20 [redacted]				Attached is the most recent draft of Senator Ted Stevens' supplemental retirement plan. His staff continues to edit the proposal and to negotiate with Senate Democrats. The key obstacle to a bi-partisan bill is COLA; Senator Stevens does not want a full COLA and Democrats, particularly Senator Eagleton, want to provide for a 100 percent COLA adjustment. Senator Stevens hopes to introduce the legislation soon after the 4 July recess.
3. DD/EB&S/OP G20 [redacted]				[redacted]
4. DD/PA&E/OP G20 [redacted]				
5. OGC 3S0[redacted]				
6. D/OLL				
7. C/LEG/OLL				
8. [redacted] Subject				
9. OLL Record				
10.				
11.				
12.				
13.				
14.				
15.				

STAT
STAT
STAT
STAT
STAT
STAT

FORM 1-79 610 USE PREVIOUS EDITIONS

GPO : 1983 O - 411-632

Page Denied

Sanitized Copy Approved for Release 2010/05/18 : CIA-RDP89-00066R000200090012-1

Primary Features

SENATOR STEVENS' NEW PROPOSAL FOR A SUPPLEMENTAL RETIREMENT PLAN FOR SOCIAL SECURITY COVERED FEDERAL EMPLOYEES

Reference: Draft bill, "Civil Service Pension Reform Act of 1985"

Senator Stevens' New Civil Service Pension System (CSPS) proposal is a modified version of his earlier proposal for retirement coverage for all permanent Federal employees covered by Social Security on or after 1 January 1984 and any employees subject to the CSRS who elect to participate in the CSPS.

I. Basic Provisions

A. A three-tiered annuity/pension base consisting of:

1. A basic defined benefit annuity plan

No employee contribution required. Annuity accrual formula of 1% of high-five average annual salary times the years of service.

2. A Voluntary "Thrift-Plan"

A Voluntary Capital Accumulation Plan (VCAP). Employees could opt to participate and contribute up to 10% of basic pay. Employing Agency required to contribute an amount equal to employee contribution up to a maximum of 5% of the employee's annual basic pay. Amounts contributed by employee to the Thrift Plan would not be included in gross income for tax purposes. Tax obligation would be deferred to time of withdrawal of investments.

3. Social Security

B. Basic annuity plan age, service and annuity criteria for longevity retirement.

The CSPS proposes criteria for two categories of Federal employees - regular and "special retirement classes" (e.g. law enforcement, fire fighters, and air traffic controller) as follows:

1. Regular Federal Employees

- Eligible to retire age 55 with 10 years of service but benefit reduced by 5% for each year under age 62.
- Employees age 55 with 30 years service could retire with benefit reduced 2% for each year under age 62.
- Employees age 62 with 5 or more years of service could retire with no reduction in basic annuity.
- Involuntary retirement of employees at age 50 with 20 years of service or any age with 25 years of

service is allowed but with a 2% reduction in annuity for each year under age 62.

2. <u>Law Enforcement, Fire Fighters and Air Traffic Controller</u>

- These three special classes of employees may retire at age 55 with 25 years of service in their occupational field without a reduction in earned basic benefit. In addition to the regular 1% accrual formula a supplement would be added equal to social security benefit (payable between ages 55 to 62).
- These special classes may retire before age 55 if they have 25 years of service in their occupational fields but with a 5% reduction per year below age 55. No supplemental payable before age 55.

C. <u>Cost of Living Adjustments (COLA)</u>

Stevens' plan proposes 50% of CPI increase but not less than CPI increase minus 2 percentage points.

D. <u>Thrift Plan Vesting</u>

Employee is vested immediately for own contributions. Employee contributions vested at 20% of contributions after one year of service. This will increase by 20% each year (e.g. to 100% after 5 years of service) with any investment gains or losses.

E. Disability Provisions

1. Administration and eligibility.

To be provided under separate Long-Term Disability (LTD) plan with third-party administrator. Disability benefits are paid first from unused sick leave, then after no further waiting period from LTD plan, if employee has 18 months of service for LTD eligibility.

2. Definition of disability

During first year after entitlement to LTD benefits, employee must be unable to do his/her own job. After first year, employee must be unable to do any federal job for which he/she is qualified in same commuting area and within 2 grade levels. During disability, total income from work may not exceed 60% of pay level for former job, and employee may be given physical exams.

3. Disability benefit amounts

60 percent of salary, offset after 5-month waiting period by 100% of social security primary benefit, payable to age 62.

If social security definition of disability is not met, benefits are reduced one year after entitlement to LTD benefits, to 40 percent of salary, payable to age 55.

High-five used to figure retirement benefits at age 62 increases to reflect current pay level for employee's former job.

4. Retirement benefits after disability

During LTD benefit period, employee's service continues to be credited toward defined-benefit formula, high-five amount goes up to reflect pay level for employee's former job, and employee may participate in defined-contribution part of the plan. After LTD benefit period ends, employee is eligible for retirement benefits based on age and service at that time.

F. Survivor Benefits

1. Preretirement death benefit, spouse or former spouse. Surviving spouse gets:

A. Any social security benefits payable;

B. Group life. All employees to get basic noncontributory amount equal to the basic amount under current law. (This is one times annual pay rounded to next higher $1,000, plus $2,000, at ages 45 and over, and is higher for those under age 45.)

C. At death of member who is eligible to retire, lifetime pension equal to 50% of accrued pension, reduced for early retirement and for election of 50% joint-and-survivor;

D. At death of member who is vested but not eligible to retire, lifetime pension (commencing when the employee first would have been eligible to retire) equal to 50% of accrued pension, reduced for early retirement and for election of 50% joint-and-survivor annuity.

E. Thrift plan account.

2. Preretirement death benefit, children

None from plan; benefits provided by social security.

3. Optional post-retirement death benefit, spouse or former spouse

Annuity to married retiree is automatically reduced actuarially as in a 50% joint-and-survivor plan to provide a spouse survivor annuity. (Automatic unless rejected.)

4. Children

None from plan; benefits provided from social security.

G. <u>Eligibility of employees hired prior to 1 January 1984 to participate in CSPS</u>

Employees hired prior to 1 January 1984 may elect to participate in CSPS. Such transfers must: participate in Social Security coverage; credit in CSPS program is frozen; all service counts toward longevity eligibility for retirement and vesting.

Employee would be given credit for prior Federal service toward social security eligibility for survivor and disability coverage. Social Security statutes relative to interface benefit reduction would be waived.

H. <u>Exclusions of Coverage under the CSPS</u>

- Employees of the District of Columbia;
- Temporary or intermittent (except part-time career) employees.
- Employees subject to another system for government employees (e.g. Foreign Service Retirement System, CIARDS)

II. Analysis/Comments

1. General

A. Expressed Purposes of Senator Stevens' Proposed "Civil Service Pension System (CSPS)"

The design, structure, and substance of Senator Stevens' CSPS are oriented towards the "pension" aspects of retirement, rather than utility of the retirement system as a managerial tool in maintaining needed characteristics of the work force.

This concept is reinforced in the opening section of Stevens' bill which includes among the purposes of the legislation to: "provide Federal employees with a retirement benefits plan which is comparable to good private sector retirement benefits plans; to encourage Federal employees to increase personal savings; and to enhance portability of retirement assets between Federal jobs and jobs outside the Federal Government.

The inclusion of severe penalty reductions for retirement before age 62 for "regular" Federal employees and before age 55 for "special classes" such as law enforcement, etc. is designed to discourage retirement until the employee is fully eligible for social security pension benefits.

In Federal agencies which do not need or use their retirement system as a work force management mechanism, the CSPS may satisfy the socio-economics and humanitarian interests of such organizations in providing for their aging pensioners.

The CSPS as structured is not compatible with serving the needs of the CIA where the nature of mission requires a relatively young and dynamic work force which will serve full but relatively short careers (20 to 30 years) and the retirement system must be designed to serve these purposes.

B. Employees Covered Under the CSPS

The proposed CSPS legislation (Sections 8401 and 8402) provides definition of employees who would be covered under the new CSPS and would be required to participate in the system.

In addition to the exclusion of certain temporary and intermittent employees, the wording of Section 8402 carries over the current exclusion in Section 8331 of Title 5 of employees subject to another system for government employees. Under the proposal, therefore, CIA employees subject to social security coverage would be subject to the regular provisions of the CSPS.

However, at such a time as the DCI would approve such employees for CIARDS participation, there does not appear to be any legal obstacle to their transfer to CIARDS. Quite apart from this interpretation however, the CSPS does not meet CIA's needs as regards our non-CIARDS employees and efforts must be continued to get support for an Agency retirement system that protects CIA's interests for both future CIARDS and non-CIARDS employee coverages.

C. Emphasis On A Voluntary Defined Contribution Plan

The CSPS provides a basic defined benefit plan at government expense which would yield approximately half the annuity level now produced under the current CSRS. The voluntary capital accumulation or Thrift Plan could provide (but not guarantee) an additional increment of annuity income for long term employee participants who could afford to contribute substantial investments into the Thrift Plan. In reality, few employees could be expected to be able to afford anything near a 10% contribution or any level of contribution until they had progressed grade level later in their careers. Employees whose financial situation permitted voluntary investments would have a wide range of more fluid alternatives other than the Thrift Plan.

Those employees who were able and would elect to contribute to the Thrift Plan could be expected to be drawn to extended career service and advanced retirement age in order to maximize their annuity income.

Conversely, younger and mid-level employee participants who serve long enough to be fully vested (i.e. with 100% government matching) and having gained competitive credentials for the public labor market, would take advantage of the portability feature of their pension package and leave government service for the more lucrative private sector.

This factor in itself poses serious security concern for the CIA and unacceptable risks to the national security interests of the United States.

2. CSPS Retirement Eligibility (Age/Service) for Non-Reduced Annuities

Regular Employees

The CSPS provisions which would permit early retirement at age 55 with 10 or more years of service and 55 with 30 years carry with them respective penalties of 5% and 2% reductions in annuities for each year the individual is under age 62. The severity of the penalties would result in few "takers" of the early option.

CIA requires retention of non-penalized age 55 with 30 years of service retirement criteria for non-CIARDS employees.

Special Category Employees (Law Enforcement, Fire Fighters, Air Traffic Controllers)

These special categories of employees would be permited to retire before age 55 provided they have 25 years of service in their occupational qualifying field but would be penalized 5% for each year under age 55.

The high penalties and ineligibility for a supplemental payment prior to age 55 would all but eliminate retirements before full entitlement.

B. Cost of Living Adjustments (COLA)

The CSPS COLA proposal for a rate of 50% of CPI increase but with a set limitation of the actual CPI increase minus 2 percentage points is similar to previous proposals.

This issue is being contested between the Senate and House in terms of the current 1986 Budget proposal.

The COLA is the highest expense item relative to the retirement issue. Should full indexing (current CIARDS and CSRS systems) be retained, other provisions of the CSPS may be revised in more stringent ways to effect savings and further exacerbate the CSPS should it be imposed on the CIA.

Mandatory employee contributions to the basic plan and/or the capital accumulation plan may be proposed to offset the costs of retaining full indexing.

The decisions reached on the 1986 Budget issue will set the stage for future supplemental plan provisions relative to the COLA.

C. Survivor Benefits

Survivor benefits would be integrated with social security entitlements. Depending on circumstances of case, benefits could be higher or lower than now provided under current retirement systems. Computation somewhat more complicated than current systems.

D. Disability Provisions

The CSPS integrates social security eligibilities and entitlements with a CSPS related ~~place~~ PLAN for disabled persons who do not meet social security disability requirements. The CSPS plan coverage would not be provided from the CSPS fund but through a third-party insuror (insurance company) administering the disability insurance contract.

The definition of disability in the CSPS is more stringent than current CSRS and benefits would be in accordance with social security if eligible or to a reducing formula for benefits of 40% of salary payable to age 55. After this long term disability period ends, employee would be eligible for retirement benefits based on age and service at that time. It is not clear whether annuity penalty reductions for age would be imposed. The CSPS requires that employees applying for disability benefits shall be examined by a physician under the direction of the insurer at such times as the insuror may require. This requirement presents serious security problems for CIA where covered employees are concerned.

E. <u>Technical Amendments</u>

Title II of the CSPS proposed legislation covers certain technical amendments to the Social Security Act and Internal Revenue Code of 1954 in order to conform to the CSPS legislation.

In order to analyze the gist of these amendments it is necessary to review current Social Security statutes and the Internal Revenue Code which can best be done by OGC.

Title III covers miscellaneous technical amendments to other statutes (Federal Employees Retirement Contribution Temporary Adjustment Act of 1983, etc., etc.)